PAKISTAN

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Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998
Income, Production and Employment: 1/			
Nominal GDP	58.1	56.5	59.2
Real GDP Growth (pct)	5.2	1.3	5.4
GDP by Sector (pct):			
Agriculture	25.2	24.7	26.0
Manufacturing	17.0	16.9	16.8
Services	8.0	8.1	8.5
Government	8.2	8.2	7.5
Real Per Capita GDP (US$)	129	109	102
Labor Force (Millions)	36.1	37.2	38.2
Unemployment Rate (pct)	5.4	5.4	5.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	13.8	12.2	14.0
Consumer Price Inflation	10.8	11.8	7.3
Exchange Rate (Rupees/US$)			
Official	35.1	40.5	46.0
Parallel	37.9	41.6	54.2
Balance of Payments and Trade:			
Total Exports FOB	8.3	8.3	8.5
Exports to U.S.	1.4	1.5	N/A
Total Imports CIF	11.8	11.9	10.1
Imports from U.S.	1.1	1.4	N/A
Trade Balance	-3.5	-3.6	-1.6
Balance with U.S.	0.3	0.1	N/A
External Public Debt	28.9	30.0	31.7
Fiscal Deficit/GDP (pct)	6.3	6.2	5.0

Current Account Deficit/GDP (pct)	-4.3	-3.9	N/A
Debt Service Payments/GDP (pct)	9.0	10.4	10.3
Gold and Foreign Exchange Reserves	7.1	6.5	N/A
Aid from U.S. (US$ Millions)	10.0	35.0	N/A
Aid from All Other Sources	2.7	1.8	1.8

1/ Rupee/Dollar conversion rates are 33.57 for 1996, 39.0 for 1997, and 42.81 for 1998.

Source: State Bank of Pakistan (SBP) and Ministry of Finance (MOF).

1. General Policy Framework

In late 1998, Pakistan's economy continued in financial crisis. Following the Pakistan-India nuclear tests of May 1998, the macroeconomic situation greatly deteriorated despite some reassuring indicators such as continued agricultural growth and low inflation. Foreign exchange receipts declined from export sales, worker remittances, and private capital investment. As early as July 1998, Pakistan's Government made a policy decision to enter technical default with some official creditors by delaying payments and accumulating arrears. By late November 1998, official foreign exchange reserves had fallen to $400 million. The government barely was able to sustain minimum essential debt service payments to International Financial Institutions (IFI). Both private investor confidence and the sovereign credit rating declined to among the world's lowest. Inappropriate policy choices and a lack of political commitment to economic reform exacerbated and prolonged the economic crisis. Efforts by various IFI to reopen balance of payments, support lending, and to reschedule outstanding debt had not been successfully completed by late November, and Pakistan teetered on the edge of losing access to IFI financing altogether.

2. Exchange Rate Policy

Pakistan continued a managed floating exchange rate system until July 21, 1998. From July 22, 1998 the government introduced a multiple exchange rate system comprising an official rate, a Floating Interbank Rate (FIBR), and a composite rate. The official exchange rate continued to tie the rupee to the dollar. The FIBR took a step forward toward a market determined exchange rate system. Supply components of the FIBR market include export proceeds, home remittances, and invisible flows. Demand components of FIBR include the "non-essential" imports and other outflows not using the official rate. A composite exchange rate combines the official and FIBR rates. As of late November 1998, the government had modified the new exchange rate mechanism several times, generally linking more transactions to the FIBR.

In years previous to the foreign exchange crisis of 1998, Pakistan significantly liberalized foreign exchange controls. The rupee was fully convertible on current account. Individuals and firms resident in Pakistan could hold foreign currency bank accounts and freely move foreign currency into and out of the country. Foreign firms investing in Pakistan (other than banks and insurance companies) may remit profits and capital without prior approval. However, in response to the foreign exchange shortage, the government froze the foreign currency accounts and increasingly denied access to official reserves.

3. Structural Policies

Under the three-year IMF ESAF/EFF program of October 1997, Pakistan recommitted itself to structural adjustment policies and macroeconomic objectives, including: (a) to reduce the external current deficit (strengthen external reserves); (b) to raise the annual growth rate of real GDP; and, (c) to progressively reduce annual inflation. The key intermediate policy target was to be a reduction in the overall budget deficit.

At the six month review of the IMF ESAF/EFF plan in early 1998, the IMF approved of Pakistan's performance and continued the program. Unfortunately, the aftermath of the India-Pakistan exchange of nuclear tests in May 1998 undid the uneven but promising six-month economic performance, and precipitated further crisis in the already weakened economy.

4. Debt Management Policies

Pakistan remains dependent on foreign donors and creditors to meet its financing needs. The 1998 foreign exchange crisis led to protracted negotiations with the IFI aiming at restoring balance of payments support lending, and anticipating major debt rescheduling with Paris and London Club creditors.

Until mid-1998 Pakistan had an excellent record of honoring external debt obligations, even during periods of strained financial circumstances. In July 1998, however, as a result of declining official reserves and other pressures, including suspension of the IMF program and nuclear-related sanctions, Pakistan began to accumulate arrears on its foreign exchange obligations. By late November 1998, with negotiations for a resumed IMF program and other IFI lending still unresolved, Pakistan had accumulated over $1.5 billion of arrears and stood on the edge of general payments default.

5. Significant Barriers to U.S. Exports

Import Licenses: In recent years Pakistan has significantly reformed its previously restrictive import regime. Import licenses, formerly common, have been abolished on all "freely importable" goods, i.e. on all items not on the negative list which consists of 68 items banned mostly for religious, health or security reasons, or in accordance with international agreements. However, in the payments crisis of late 1998, the government was quietly but actively discouraging imports. Commercial banks were having difficulty opening normal letters of credit for trade transactions.

Services Barriers: Several sectors, including banking, insurance, transportation and telecommunications, are affected by services barriers. Portions of major service industries are nationalized and run by the government. Foreign banks are generally restricted to having at most four branches, are subject to higher withholding taxes than domestic banks, and face restrictions on doing business with state-owned corporations. New foreign entrants to the general insurance market are effectively barred, and those to the life insurance market, while not barred, face severe obstacles. Meanwhile, those few foreign insurance companies operating in Pakistan face various tax problems, long delays in remitting profits, and problems associated with operating within a cartelized industry. Basic telephony is the monopoly of the state-owned Pakistan Telecommunications Corporation Ltd. (PTCL), and was to remain a monopoly for seven years after PTCL's privatization in 1997. Competition among private providers is allowed in cellular telephony. Foreign brokers are allowed to join one of the country's three stock exchanges only as part of a joint venture with a Pakistani firm. Motion pictures face high tax rates, especially the practice of including the royalty value in the dutiable value of films imported for showing in theaters, which have sharply cut their export into Pakistan.

Standards, Testing, Labeling, and Certification: Testing facilities for agricultural goods are inadequate, and standards are inconsistently applied, resulting in occasional discrimination against U.S. farm products.

Investment Barriers: Pakistan further liberalized its foreign investment regime in 1998 and officially encourages foreign investment. Where investment is allowed, repatriation of profits generally is allowed (when foreign exchange is available). Unfortunately, during 1998, the government pursued a campaign of harassment and intimidation against the heavily foreign invested independent power producers, which broadly and severely damaged the climate for both private direct and portfolio investment.

Government Procurement: The government, along with its numerous state-run corporations, is Pakistan’s largest importer. Work performed for government agencies, including purchase of imported equipment and services, is usually awarded through tenders that are publicly announced and/or issued to registered suppliers. The government subscribes to principles of international competitive bidding, but political influence on procurement decisions is common, and these are not always made on the basis of price and technical quality alone. Delays in bureaucratic decision-making are common.

Customs Procedures: Investors sometimes complain of a gulf between incentives advertised at the policy level and on-the-ground implementation, and these complaints often relate to customs problems. For example, preferential tariff rates are usually subject to the proviso that the goods in question are not domestically manufactured. Disputes sometimes arise over this provision, with investors arguing that local output, while available, does not meet their specifications. Investors also cite arbitrary and inconsistent customs valuations and frequent changes in rates. Charges that customs officers demand bribes are also common.

6. Export Subsidies Policies

Pakistan actively promotes the export of locally produced goods with government financing measures, a tariff rebate scheme and other concessions on imported inputs, tax concessions, and government-sponsored exhibitions. These policies appear to be equally applied to both foreign and domestic firms producing goods for export. Pakistan's main exports are cotton textile products, and until 1994 the government taxed raw cotton exports in order to keep their price low for domestic manufacturers. Cotton exports are no longer taxed, but they must be registered and domestic textile producers continue to call for reimposition of the tax.

7. Protection of U.S. Intellectual Property

Pakistan is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), and is obligated to bring its laws and enforcement efforts into TRIPs compliance by January 1, 2000. The U.S.-Pakistan Treaty of Friendship, Commerce and Navigation guarantees national and Most-Favored-Nation (MFN) treatment for patents, trademarks, and industrial property rights. Pakistan is a member of the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, and the World Intellectual Property Organization, but not a member of the Paris Convention for the Protection of Industrial Property.

Pakistan has been on the U.S. Trade Representative “Special 301” Watch List since 1989 due to widespread piracy, especially of copyrighted materials and slow efforts to implement its patent mailbox obligations under the TRIPs agreement. Present U.S. concerns include continuing high piracy levels; TRIPs inconsistent copyright law; nominal fines for infringers; lack of patent protection for pharmaceutical products; TRIPs inconsistent term of patent protection; and trademark infringement.

Patents: Current law protects only process patents, though the government has stated its commitment to eventually offering product patents in accordance with WTO obligations.

Trademarks: Since 1994, Pakistan has required that pharmaceutical firms label the generic name on all products with at least equal prominence as that of the brand name. This trademark labeling requirement serves to dilute in the minds of consumers the differences in quality, efficacy and safety among different products. There also have been occasional instances of infringement, including of trademarks for toys and industrial machinery.

Copyrights: The markets for imported computer software and, until recently, film videos, are nearly 100 percent pirated. Piracy of copyrighted textile designs is also a serious problem. Some counterfeit products made in Pakistan are exported to other markets. However, at least one local firm is now distributing legitimate, copyrighted videotapes produced by U.S. film studios. As a result of strengthened law enforcement, some other pirate outlets are taking steps to offer legitimate products. Sustained stronger enforcement needs to be paired with action by the courts to prosecute and sentence violators.

The impact on U.S. exports of weak IPR protection in Pakistan is substantial, though difficult to quantify. In the area of copyright infringement alone, the International Intellectual Property Alliance estimated that piracy of films, sound recordings, computer programs, and books resulted in trade losses of $62 million in 1994.

8. Worker Rights

a. The Right of Association: The Industrial Relations Ordinance of 1969 (IRO) enunciates the right of industrial workers to form trade unions but is subject to major restrictions in some employment areas. In practice, labor laws place significant constraints on the formation of industrial unions and their ability to function effectively. The Essential Services Maintenance Act of 1952 restricts normal union activities in sectors associated with "the administration of the state," e.g. government services and some public utilities, but the government has reduced its application.

b. The Right to Organize and Bargain Collectively: The right of industrial workers to organize and freely elect representatives to act as collective bargaining agents is established in law. However, the many restrictions on forming unions preclude collective bargaining by large sections of the labor force, e.g. agricultural workers, who are not guaranteed the right to strike, bargain collectively, or make demands on employers. Legally required conciliation proceedings and cooling-off periods constrain the right to strike, as does the government's authority to ban any strike that may cause "serious hardship to the community." Strikes are rare and, when they occur, usually illegal and short. The government regards as illegal any strike conducted by workers who are not members of a legally registered union. The law does not protect leaders of illegal strikes.

c. Prohibition of Forced or Compulsory Labor: The constitution and the law prohibit forced labor. However, illegal bonded labor is widespread. Bonded labor is common in the brick, glass, and fishing industries and is found among agricultural and construction workers in rural areas. Conservative estimates put the figure of bonded workers at several million. The Bonded Labor System (Abolition) Act, adopted in 1992, outlawed bonded labor, canceled all existing bonded debts, and forbade lawsuits for the recovery of existing debts. However, the provincial governments, which are responsible for enforcing the law, have failed to establish enforcement mechanisms, and the law is largely ineffective.

d. Minimum Age for Employment of Children: Child labor is common and results from a combination of severe poverty, employer greed, and inadequate enforcement of laws intended to control it. A government study done with the assistance of the ILO estimates there are some 3.6 million child laborers in Pakistan. While much child labor is in the traditional framework of family farming or small business, the employment of children in larger industries is also widespread. Child labor is widely employed in the carpet industry, much of which is family-run. Children have also been employed in other export industries, such as textiles, leather tanning, surgical instruments, and sporting goods, though the extent is unclear. In 1998, the government made significant further efforts to improve enforcement of laws against child labor and is cooperating with the ILO on a range of programs with the goal of eliminating child labor. It has also encouraged the establishment of an independent child welfare foundation designed to rehabilitate child laborers and to oversee child labor-free certification programs.

e. Acceptable Conditions of Work: The law provides for a monthly minimum wage of about 42 dollars (1,650 rupees), a maximum workweek of 54 hours, rest periods during the workday, and paid annual holidays. Although this wage provides a meager subsistence living for a small family, minimum wage benefits and other regulations affect only a small part of the work force, and most families are large. In general, health and safety standards are poor.

f. Rights in Sector with U.S. Investment: Significant investment by U.S. companies has occurred in the power, petroleum, food, and chemicals sectors. U.S. investors in industrial sectors are all large enough to be subject to the full provisions of Pakistani law for worker protection and entitlement. In general, multinational employers do better than most employers in fulfilling their legal obligations, providing good benefits and conditions, and dealing responsibly with unions. The only significant area of U.S. investment in which worker rights are legally restricted is the petroleum sector. The oil and gas industry is subject to the Essential Services Maintenance Act, which bans strikes and collective bargaining, limits a worker's right to change employment, and affords little recourse to a fired worker.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

Category	Amount	
Petroleum		(1)
Total Manufacturing		36
Food & Kindred Products	10	
Chemicals & Allied Products	11	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	14	
Wholesale Trade		28
Banking		164
Finance/Insurance/Real Estate		163
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		630

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.